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ABSTRACT

The document presents a guide for teaching insurance protection based on the needs of students in the South Pacific. It is presented as a unit of study within the area of consumer education. Suggestions for unit objectives, student activities, time allocation, teaching methods, and reference materials are offered. A lesson plan is outlined based on 10 subject areas and their corresponding materials as they are presented in the pupils' pamphlet and the teacher's guide. The 10 areas of study include: (1) introduction, (2) types of insurance, (3) principle of insurance, (4) the insurance contract, (5) motor vehicle insurance, (6) fire insurance, (7) burglary insurance, (8) householders/houseowners insurance, (9) life insurance, and (10) statistics. The lessons contain teaching procedures and suggestions for discussion and activities. One-third of the document consists of appended materials providing background information related to the fundamental principles of insurance and the different types of insurance. (EC)

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APR 29 1979

1.6.1973

20 years

12/45

\$1350.

1st of each month

II C

Has the Insured Person—

7. (a) Ever made a proposal for insurance against accident or illness? ...
(b) If so, to what Company or Companies, and with what result? ...
... insured in any Life Company? ...
... in what Company and for what amount? ...
... had a proposal and/or policy declined, endorsed, cancelled ...
... refused renewal by any Accident, Illness or Life Company ...
... required to pay an increased premium? ...
... with an accident causing personal injury or made a claim ...
... any Company for accident or illness?
(b) If so, state the name of Company, date, amount, and nature of claim (if more than one claim has been made, particulars of each must be given)
11. (a) Ever suffered from impairment of hearing or sight? ...
(b) Any physical defect or infirmity?
12. EVER had any of the following:—
(a) Asthma, tuberculosis, or any lung disease?
(b) High blood pressure, rheumatic fever or any heart or kidney disease?
(c) Gastric or duodenal ulcer, or any liver or gall bladder disease?
(d) Epilepsy, fainting attacks, fits or nervous disorder of any type?
(e) Hernia, diabetes, cancer or tumour of any type?
(f) Disc lesion or other back trouble?

THEFT OF SAFE LEADS TO 18 MONTHS' GAOL

A 20-year-old man was gaoled for 18 months after he admitted in Suva Court he stole an empty safe and portable typewriter, valued together at \$300, from a church office at Lami.

FARMER DIES AFTER FALL

COPRA AND SHED BURN

INSURANCE

2 TEACHERS' GUIDE

ORDINARY
ENDOWMENT

Q

26	11.24
27	11.26
28	11.28
29	11.30
30	11.32
31	11.34
32	11.36
33	11.38
34	11.40
35	11.42
36	11.44
37	11.46
38	11.48
39	11.50
40	11.52
41	11.54
42	11.56
43	11.58
44	11.60
45	11.62
46	11.64
47	11.66
48	11.68
49	11.70
50	11.72

14	42.93	22.33	11.24
15	43.00	22.36	11.26
16	43.08	22.38	11.28
17	43.16	22.41	11.30
18	43.24	22.44	11.32
19	43.32	22.46	11.34
20	43.40	22.48	11.36
21	43.48	22.51	11.38
22	43.56	22.54	11.40
23	43.64	22.57	11.42
24	43.72	22.60	11.44
25	43.80	22.63	11.46
26	43.88	22.66	11.48
27	43.96	22.69	11.50
28	44.04	22.72	11.52
29	44.12	22.75	11.54
30	44.20	22.78	11.56
31	44.28	22.81	11.58
32	44.36	22.84	11.60

TEACHING MATERIAL PRODUCED BY THE UNDP (U.N.E.S.C.O.)
CURRICULUM DEVELOPMENT UNIT, UNIVERSITY OF THE SOUTH
PACIFIC, IN COLLABORATION WITH CURRICULUM DEVELOPMENT
UNITS AND TEACHERS IN THE SOUTH PACIFIC.

II C

INTRODUCTION

This unit of study is the third of the units dealing with MAN AS A CONSUMER, the second major theme of the BASIC COMMERCE course. Unit II B (Wise Shopping) deals with the principles and basic techniques of shopping and the criteria a knowledgeable consumer should apply when spending his income.

Not all consumer spending is directed towards purchasing goods and important services, such as transport or communication. Today's life is full of ECONOMIC RISKS, and at any time the consumer faces the possibility of a financial loss. His home might be destroyed by fire, hurricane or flood; his personal belongings might be stolen, his car might be involved in an accident. Income might be lost as a result of death or disability of the earner of family income.

Of course, savings provide one way of covering money losses, but they are an inadequate protection if the loss is very large; very few people could save enough to be protected in this case. A better way to guard against large losses is through INSURANCE PROTECTION.

Historically, insurance has developed from risk-sharing arrangements merchants made in respect of their trading vessels and cargo as early as the Middle Ages. However, insurance principles have been applied as far back as in ancient Rome or China. For centuries groups of people with common interests (craftsmen, traders, shipowners, etc.) have organised a system of regular subscriptions or donations from their members to protect themselves or their next of kin from unexpected losses of life or property.

Since then insurance has gone a long way to develop into a SERVICE INDUSTRY which today offers a wide range of protection to the business community and the consumer. In the U.S.A. alone about one-and-a-quarter million people work in about 5,700 enterprises specialising in insurance business; about 90 insurance firms operate in New Zealand, 36 insurance firms are registered in Fiji. Some of these firms sell all types, others specialise in one or several kinds of insurance. Many operate in a number of countries through a network of branches, subsidiaries, or affiliated companies.

Although insurance in the past was primarily looked upon as a "business for businessmen", it has become increasingly important for the consumer in developing countries. The traditional pattern of family and kinship protection which in the past guarded its members against the risk of illness, death, and damage to their property, is unlikely to provide them with adequate protection in the future. In a cash economy the consumer will have to

budget for an amount necessary to buy protection from outside sources, warranted by the increasing value of his property and the need to secure his cash income for his family in the event of his death or inability to work. Although part of this protection is now provided through compulsory social insurance (such as the National Provident Fund) there is still room for a more specific insurance protection suitable for the individual's special needs and requirements.

In response to this development and the expansion of trade and industry, the insurance industry has expanded considerably in the South Pacific region over the past decade and this trend, as in banking, is likely to continue. In 1973, over 20 insurance firms were operating in Fiji alone, six of them in life insurance. All insurance firms, with one exception in general insurance business, are branches or affiliates of overseas companies. The total premium income in general insurance has increased from \$2.3 million in 1969 to \$5.0 million in 1973. In life insurance, the numbers of policies sold increased by about 30 % between 1970 and 1973.

In almost all countries of the Western world the insurance market is highly competitive. Conditions of insurance contracts, coverage, premium rates, terms, exclusions, bonuses, etc. can vary considerably and make it difficult for the consumer to select the type of protection that suits his needs best. On the other hand, policy holders tend to give little thought as to the main principle underlying any insurance; the sharing of risks among a group of people and - consequently - the relationship between the gravity of risk, its probability of occurrence, and the amount of premium calculated on this basis.

For this reason it was found necessary to deal with INSURANCE in a separate unit of study as part of the BASIC COMMERCE materials.

AIMS OF THE UNIT

This unit relates to topic I . 1 . 5 (Protecting Income and Property) of the Basic Commerce draft curriculum, which provides for the treatment of insurance principles and techniques. The activities suggested aim at:

- (1) introducing the concept of sharing of economic risks;
- (2) giving an overview of the main types of insurance protection offered;
- (3) providing pupils with more detailed knowledge of the types of insurance protection relevant for the consumer;
- (4) familiarising pupils with the basic rights and obligations arising from an insurance contract;

- (5) creating an understanding of the interdependence between risk and premium;
- (6) developing an appreciation of the role of insurance firms in the economy;
- (7) developing skills in analysing relevant insurance documents;
- (8) developing skills in collecting, interpreting and presenting topical statistical information.

PUPILS' ACTIVITIES

When dealing with this unit, pupils are expected to

- (1) analyse reports and extract details of types of claims and possible insurance coverage;
- (2) collect information on insurance firms operating in their area;
- (3) compile a sequence of steps required to establish and maintain an insurance contract;
- (4) collect information on insurable items in their homes;
- (5) discuss and find answers to a number of case studies related to specific insurance policies;
- (6) calculate premium rates for fire and life insurance on the basis of expected claims;
- (7) discuss changes of premium rates related to higher or lower risks;
- (8) comment on statistical data related to insurance.

TIME ALLOCATION

The unit is likely to require 15 - 23 lessons of 40 - 50 minutes duration. Two sections are supplementary and can be left out if time is not available.

SOME NOTES ON THE CONTENT OF THIS UNIT

- 1) This material has been mainly related to conditions in Fiji, which has the largest "insurance market" in the South Pacific. However, most insurance companies operate internationally and their procedures and contents of their documents differ very little. It would appear that very few adjustments would be required to make the material applicable to other parts of the region.
- 2) It proved very difficult to simplify the insurance documents reproduced in the Pupils' Pamphlet, although this has been attempted to a certain extent. Although the wording used in proposal forms, cover notes and renewal notices is relatively simple, the ancient legal phrasing used in the terms of the policies will not be easily understood by pupils. As the conditions, definitions, exclusions and other terms of the policy are part of legally binding agreement between insurer and insured and consequently of great importance to both parties, we did not attempt to substantially alter the "legal jargon" in the document. If we did, pupils might quite rightfully find the material unrealistic and unrelated to the kind of documents they might have seen at home. We realise that the teacher will have to offer much assistance when analysing the conditions of insurance contracts. But since pupils will be confronted with similar documents in later "real life" situations, it was felt that in keeping the original documents' legal jargon we might succeed in reducing pupils' fear of or reluctance in dealing with complicated phrasing.
- 3) As mentioned above, the unit concentrates on types of insurance protection relevant to the consumer and small entrepreneur, i.e. Fire, Burglary, Motor Vehicle, Houseowner/Householder's and Life Insurance. It does not cover other types, such as Accident, Public/Private Liability, Marine insurance, which are more relevant to the businessman, nor does it deal with Workmen's Compensation or Group Life Policies, which are generally bought by employers.

National Insurance Schemes, i.e. compulsory insurances administered by government or parastatal bodies have already been dealt with in Unit II A (Section on F.N.P.F.) They are normally established by act of parliament which also sets out the rates of contributions and benefits.

Furthermore, we did not attempt to include aspects of REINSURANCE, i.e. the risk-sharing between individual insurance firms and companies specialising in "insuring the insurers" against big losses, since this is entirely a matter between insurance businesses.
- 4) Some legal aspects have been included inasmuch as they are of relevance to the insurance contract. No attempt has been made to deal with the law of contract in greater detail.

SOME NOTES ON TEACHING THIS UNIT

- 1) It is suggested inviting a representative of an insurance firm for a talk to students after the main topics of the units have been covered. Teachers might find that pupils will ask very specific questions derived from insurance cases from within their families etc. or wish to discuss particular aspects in greater detail. It is recommended that these points are noted and compiled into a list of questions put forward to the guest speaker as a starting point for discussion.
- 2) Insurance firms provide a large range of information/advertising material. It is strongly recommended to make use of this opportunity and have pupils collect, discuss and display topical material when dealing with the various types of insurance.
- 3) An extract from the "INSURANCE MANUAL FOR COMMERCIAL TEACHERS" published by the Insurance Council of New Zealand, P. O. Box 474, Wellington, New Zealand, is added as an appendix to this guide for additional background information. It also covers types of insurance not dealt with in this unit.

LINKAGES WITH OTHER SUBJECT AREAS

Aspects of Insurance are also dealt with in the following Form I-IV materials developed by the UNDP/UNESCO Curriculum Development Unit, University of the South Pacific, Suva, and should be referred to in consultation with the subject teacher:

Home Economics

Part II, Topic B (Home Management)
Section 1 + 2 (Form IV)

Mathematics

Probability (Form IV)

TEACHERS' REFERENCE MATERIAL

Below are some sources teachers may find useful if they wish to obtain more information about insurance and/or acquire reference books for the school library.

Dinsdale & McMurdie

Elements of Insurance

Pitman Paperback

Fleming

Insurance in New Zealand

Reed

Kelsey, Daniels

Handbook of Life
Insurance

Institute of Life
Insurance,
277 Park Ave.,
NY, 10017.

LESSON PLAN

Topic	Approximate number of lessons	Corresponding material in the Pupils' Pamphlet	Teachers' Guide Page
Introduction	1	Case Study (4)	8
Types of Insurance	1	Diagram Worksheet A	9
Principle of Insurance	1	Fact Sheet Diagram Worksheet B	10 - 11
The Insurance Contract	1 - 2	Sample Documents Worksheet C	12 - 13
Motor Vehicle Insurance	2 - 3	Fact Sheet Third Party Policy MOTOR VEHICLE POLICY Motor Vehicle cover note Worksheet D	14 - 16
Fire Insurance	3 - 4	Fact Sheet Worksheet E Fire Policy conditions Diagram Worksheet F	17 - 22
	8		(continued)

LESSON PLAN (continued)

7

Topic	Approximate number of lessons	Corresponding material in the Pupils' Pamphlet	Teachers' Guide Page
Burglary Insurance	1 - 2	Newspaper cuttings Fact Sheet Sample letter BURGLARY POLICY Examples of Fire/ Burglary Rates	23 - 24
Householders/ Houseowners Insurance*	2	Fact Sheet HOUSEHOLDERS/HOUSEOWNERS INSURANCE POLICY Worksheet G	25 - 27
Life Insurance	4 - 6	Fact Sheet Life Assurance Mortality Table Worksheet H Fact Sheet Rate Calculation Questions of Proposal Form Worksheet I LIFE ASSURANCE POLICY Fact Sheet: Special Features of Life Assurance	28 - 38
Let's look at Statistics	1 - 2	Tables I, II, III "Golden Rules" - How to buy Insurance Glossary of words	39 - 41

15 - 24

* Topics are Supplementary

Introduction

It is suggested that pupils first read the four case studies and that teachers start the lesson by asking questions, such as

- What kind of damage/loss do they describe?
- What circumstances caused the damage?
- Was the damage/loss foreseeable?
- What could have been done to avoid or reduce the damage?

Compile the answers on the blackboard, for example:

Case	Event	damage/loss	reasons	negligence
1	car crash	damage to car	speed, poor visibility, etc.	yes
2	fire	loss of house	forgetfulness	yes
3	burglary	loss of goods and money		?
4	death	loss of life	dangerous work	?

Conclude

- (1) that it is not possible to avoid loss/damage in daily life, even by being especially careful (some damage/loss is due to negligence, but some is not);
- (2) life bears a number of "economic risks".

Ask pupils to give examples of these risks from their own or their family's experience.

Tell pupils that they will deal with protection from these risks in the following lessons.

Questions for further discussions:

Which laws or regulations (in schools, factories, on boats, on the roads, etc.) aimed at reducing/preventing losses/damages do they know? Should they be made even stricter to prevent damage in future? (Refer to safety regulations, traffic codes - particularly speed limits - etc.) What would be the effect?

Suggestions for further activities:

Have pupils select, compile and display topical newspaper reports.

Types of Insurance

Refer to the findings of the last lesson, re-state the economic risks in daily life.

Introduce the term INSURANCE = Protection from loss or damage.

Tell pupils that businesses specialising in selling protection are called INSURANCE COMPANIES or INSURANCE FIRMS*.

Introduce the diagram on page 4 of the Pupils' Pamphlet, and have pupils identify

- 1) the two main branches of insurance (GENERAL - LIFE).
- 2) the various types of general and life insurance.

Refer to topical newspaper information collected after the previous lesson and discuss which type of insurance provides protection from the losses/damages described.

Complete Worksheets A + B.

* Note: The term Insurance Company is not quite correct in the above context, although it is commonly used. Some insurance firms are established as MUTUAL SOCIETIES and are registered separately from companies. Since most Mutual Societies specialise in Life Insurance they will be introduced at a later stage.

Principle of Insurance

Revise briefly the findings of the last lesson.

Refer to the diagram on page 7 of the Pupils' Pamphlet.

Introduce the terms

PREMIUM = payment made to an insurance firm in order to be given protection

CLAIM = amount of money that the insured receives from the insurance company to compensate for a loss or damage

RESERVE = amount of premium income set aside by insurance firms for large losses

and have pupils interpret the diagram.

Emphasise the POOLING of RISKS, i.e.

- (a) many people contributing to a pool or fund from which
- (b) those suffering a particular loss/damage will be paid.

Tell pupils that a pool (or fund) is kept by insurance firms separately for EACH TYPE of insurance. (Premiums for fire insurance will be used to compensate fire losses, premiums for car insurance will be used to pay for damage caused by car accidents, etc.)

Inquire about the type of statistical information insurance companies require in order to estimate the future claims. If available, refer to the statistical abstract/yearbooks which contain data on

numbers of cars registered / numbers and causes of accidents;
numbers and value of building permits / fire damage reported.

Tell pupils that insurance companies use the data of previous years to estimate the number of fires and damage, number of car accidents and damage likely to occur in the following years.*

* Note: In general, statistics published by Government are not sufficient to guide insurance companies in their estimates. They use additional information from their own records and unpublished statistics when estimating future claims.

Suggested further activities:

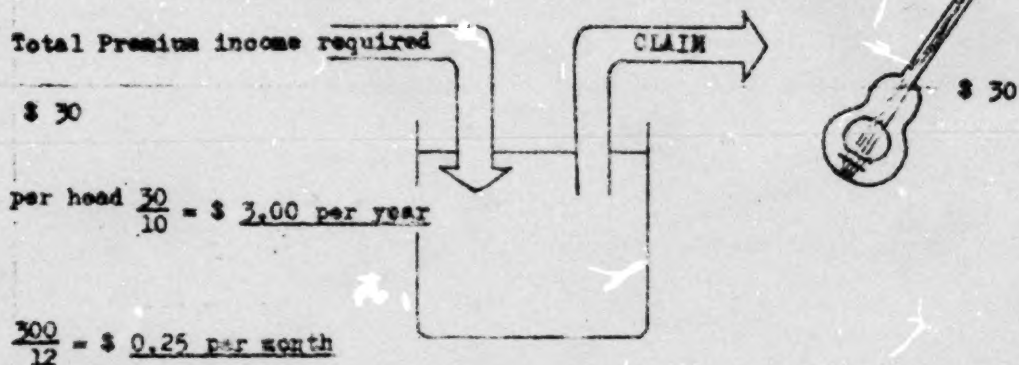
We assume that Northern High School pupils formed their own dance band, the NORTHERN SWINGERS, some years ago. The band plays at various functions, dances, etc. and is paid by the organizer. There are ten members of the band, each owning an instrument (guitar, drum, etc.) worth about \$30. Over this period ONE instrument was lost, stolen or badly damaged during their travel each year, causing a severe financial loss to one of their members. Although they all intend to be very careful when handling their instruments, they feel that they cannot avoid similar losses in the future.

They have now decided to share the risk equally among themselves by setting up a pool and making regular contributions to it.

- 1) How much would each member of the band have to pay into the fund

- a) per year;
 - b) per month?

(We estimate that their losses will be the same as in past years).

Questions for further discussions:

- 2) What are the weaknesses of the above arrangement? (= Not enough people to share the risk. It takes a long time to build up the fund large enough to pay for one instrument lost. If two or three instruments are stolen there are no reserves to cover a big loss).
- 3) Some people feel that premiums are too high. They would rather save money in the bank for the purpose of financial losses they might suffer. What are the advantages and the disadvantages of saving against insurance?
- 4) Compare the risks of today with those your grandparents faced. What risks exist today which your grandparents did not have to worry about?

The Insurance Contract

Refer to the insurance documents reproduced on pages 9 - 11 of the Pupils' Pamphlet.

Have pupils identify the details of the documents, such as

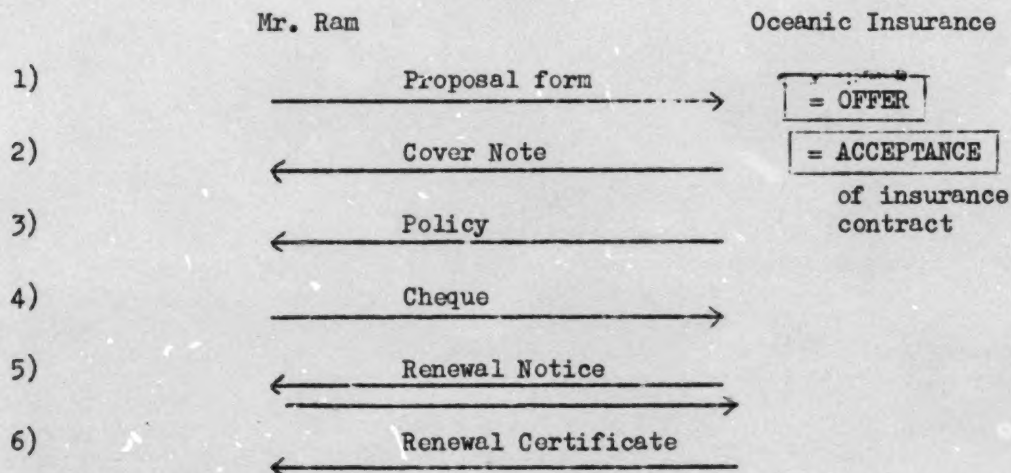
name of the document, name of insurance company, person insured, risk covered, sum insured, premium, date each document was made out, etc.

(Refer back to Unit I E "How Goods are Made". Pupils have come across Mr. L. Ram before. Compare the list of equipment on page 14, Pupils' Pamphlet I E, with the items listed on the insurance documents. Is the total value of his equipment the same as the sum insured shown on the documents? Which additional items does Mr. Ram want to be covered by insurance?)

Ask pupils to analyse the text of the various documents and discuss

- 1) the order in which the documents were made out;
- 2) whether they were made out by the insurance company or Mr. Ram.

Compile your findings on the blackboard, for example



The Insurance Contract (II)

Redraw the diagram developed in the last lesson.

Explain that

- 1) Ram and Oceanic Insurance have made an agreement which lawyers call CONTRACT; *
- 2) any CONTRACT is established by an
OFFER (= Ram wishing to insure his workshop against fire,
expressed in the proposal form he signed)
and
ACCEPTANCE of the offer (= Oceanic Insurance promising to
give protection expressed in the cover note sent
to Ram) **
(Amend the diagram accordingly)
- 3) Ram and Oceanic Insurance have agreed on
 - (a) Ram paying a premium to Oceanic Insurance
 - (b) Oceanic Insurance protecting him from losses through fire
 - (c) other details which are printed on the policy

Introduce the words

CONDITIONS	} (of contract, policy, etc.)
TERMS	

= details of an agreement which both sides must keep.

Emphasise that some policies contain a large number of conditions spelled out in small print on the policy. Refer to sample policies of other types of insurance reproduced on pages 15, 17, 31 and 35 of the Pupils' Pamphlet.

Refer to the proposal form on page 9 and explain that the phrase "subject to Terms, Exceptions and Conditions of the company's policy" means that Ram has agreed in advance to the conditions when signing the proposal form.

Tell pupils that the rules about the contract apply to all types of insurance and that they will hear more about particular types of insurance in the following lessons.

Ask pupils to complete Worksheet C as homework.

* There are a number of "essentials" in a valid contract, such as legality, capacity, consideration clause, etc. It is not intended to introduce such abstract concepts in the above context.

** The cover note is a temporary acceptance of the proposal offer, since it takes insurance firms some time to make out the policy. The cover guarantees immediate protection but becomes invalid when replaced by the policy, which legally is the document of acceptance. Note that the cover note has a maximum duration of validity stated on it.

Motor Vehicle Insurance (I)

Introduce THIRD PARTY POLICY and THIRD PARTY RATES reproduced on pages 15/16 of the Pupils' Pamphlet.

Have pupils analyse the policy (person insured, date of issue, duration of coverage, premium, "renewal" clause, etc.) and identify the scope of insurance protection.

Have pupils underline the relevant text (... insurer agrees to insure the persons against liability in respect of death or bodily injury to any person caused by the use of (the insured's) vehicle.)

Conclude that the insurance protection covers injuries to persons in

- 1) the policy holder's car;
- 2) somebody else's car involved in an accident with the insured's car;
- 3) the street or on the road (pedestrians, cyclists, etc.) involved in an accident with the insured's car.

Emphasise that the THIRD PARTY POLICY does NOT COVER DAMAGE to the MOTOR VEHICLE (repairs, etc.).

Refer to the conditions of the THIRD PARTY Policy and ask pupils for examples of cases not covered by the insurance, such as

- 1) the car is driven by a person without valid driving licence (clause No.4);
- 2) the car is shipped to Tonga and driven there ("on a road in Fiji");
- 3) the person injured is the policy holder's brother (excl. 1 a);
- 4) the car, insured as a private car, is used as a taxi (excl. 3).

Re-state the findings of the last lesson: that conditions of the policy are additional details of the agreement (CONTRACT) which both parties must follow.

Refer to the THIRD PARTY RATES schedule and discuss reasons for the difference in premium rates.

Conclude

more passengers (bus)
more frequent use of vehicle (taxi) } = higher risk = higher premium

Premium does not depend on value of vehicle, since damage or loss of vehicle not covered by policy.

Motor Vehicle Insurance (II)

Revise briefly the findings of the last lesson.

Introduce MOTOR VEHICLE POLICY / COVER NOTE and have pupils extract the relevant details of the coverage. (Note that only the front page of the MOTOR VEHICLE INSURANCE is reproduced. The schedule containing the insured's name, details of the car, duration, etc. would be similar to the THIRD PARTY Policy.)

Compare the coverage of Third Party and Motor Vehicle insurance and compile the findings on the blackboard, for example:

THIRD PARTY COVER	MOTOR VEHICLE COVER
bodily injury or death	damage to the policy holder's car (section 1)
	damage to somebody else's car (section 2)
	bodily injury or death
caused by motor vehicle	

Have pupils complete Worksheet D.

Answers:

- (1) Risk insured: Life/bodily injury
 larger vehicle - more passengers
 taxi/rental car - more frequently used } = higher risk = higher premium

(2)	THIRD PARTY ONLY	SOLOMONI Motor Vehicle Insurance	TEVITA Motor Vehicle Insurance
a)	Solomoni himself not covered by insurance	Solomoni's MV Insur. under section 1	Solomoni's MV Insur. under section 2
b)	Solomoni himself as result of court case	Solomoni's MV Insur. under section 2(b) ("legal liability")	Tevita's MV Insur. under section 1
c)	Solomoni's THIRD PARTY INSURANCE	Solomoni's THIRD PARTY INSURANCE	Solomoni's THIRD PARTY INSURANCE

(continued)

Answers (continued)

(3)

THIRD PARTY POLICY	MOTOR VEHICLE POLICY
a) covers death/bodily injury	covers damage to own motor vehicle damage to other motor vehicle involved in accident death/bodily injury
b) compulsory	voluntary
c) "standard" policy used by all insurance companies	conditions of policy might vary
d) premium rates depending on type and use of vehicle	premium rates depending on <u>value</u> and use of vehicle
e) premium rates uniform with all companies	premium rates differ between companies
f) maximum amount of claim fixed by law	maximum amount of claim fixed by insurance company

Questions for further discussions:

- (1) Would a THIRD PARTY insurance be needed if all drivers observe the traffic regulations?
- (2) Premium rates for THIRD PARTY and MOTOR VEHICLE insurance have increased over the past years. Can you give reasons for this development?
- (3) A NO-CLAIM BONUS is granted to drivers who have driven accident-free over the past years. Do you think this is a fair practice?

Fire Insurance

Refer back to the fire insurance policy on page 12 of the Pupils' Pamphlet.

Re-state briefly the details of this policy.

Emphasise that this policy covers specific risks: FIRE, EXPLOSION, LIGHTNING.

Tell pupils that they will now look closer into the CONDITIONS of the policy.

Refer to page 23 of their pamphlet and explain that it shows the terms of the fire policy (normally printed on the back of the policy document).

Have pupils analyse the text. Assist them in interpreting the clauses. Simplify the legal phrases and help them in formulating simple sentences to describe the content of each clause.

Compile them on the blackboard, for example:

Clause No.	Meaning
1	False statement made in proposal form or policy = NO PROTECTION
2	If same goods are insured with a second insurance company without informing the other insurer = NO PROTECTION *
3	List of items which are not covered by insurance ("EXCLUSIONS")
4	Damage/loss must be reported to insurance company immediately; details of damage/loss (list of goods, for example) provided within 30 days.
5	If damage caused in order to cheat insurance company = NO PROTECTION
6	If items insured at lower value than real value = INSURANCE COMPANY WILL ONLY PAY PART OF THE DAMAGE ("AVERAGE CLAUSE")

(continued)

* Note: If Mr. Ram were to insure his equipment with a second company, he would receive double the sum in case of a loss or damage. He would therefore make a profit from a fire loss. This is clearly against the principle of indemnity.

Explain that the "AVERAGE CLAUSE" is part of many insurance policy conditions. It protects the insurance company from paying the full amount of damage although the insured has not paid the full premium (having stated too low a value for the items insured in his proposal form).

Introduce the terms

UNDERINSURANCE = real value of insured items higher than
value given on policy;

OVERINSURANCE = real value of insured items lower than
value given on policy.

Re-state that the conditions discussed above are part of the insurance contract. In signing the proposal form or accepting the policy the insured has accepted all these conditions.

Fire Insurance (II)

Revise the meaning of CONDITIONS, EXCLUSIONS, OVERINSURANCE, UNDERINSURANCE, AVERAGE CLAUSE.

Re-state the principle of insurance: pooling of risks. Refer to the diagram on page 22 for illustration.

Introduce Worksheet E; discuss questions in given order, allow time for queries, ask pupils to work out the answers. It might be useful to relate the answers to the illustration, for example:

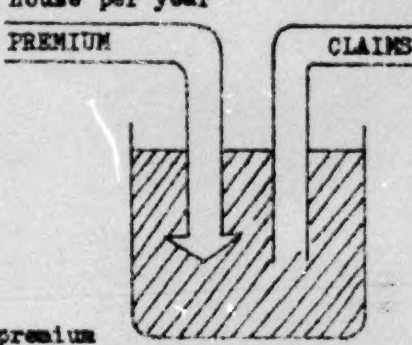
Answers - Worksheet E

1 a) Step 2
Necessary premium income

$$\frac{\$ 24,000}{1,000} = \$ 24.00 \text{ per house per year}$$

Step 1
Expected claims

$$\frac{1,000}{250} = 4 \text{ houses}$$

$$4 \times \$ 6,000 = \$ 24,000$$


1 b) Step 2
Necessary premium income

$$\frac{\$ 28,000}{1,000} = \$ 28.00 \text{ per house per year}$$

Step 1
Expected claims
+ expenses
\$ 24,000 claims
\$ 4,000 expenses
\$ 28,000 required earnings

1 c) Step 2
Necessary premium income

$$\frac{\$ 36,000}{1,000} = \$ 36.00 \text{ per house per year}$$

Step 1
4 houses of \$ 8,000 each =
\$ 32,000 claims
\$ 4,000 expenses
\$ 36,000 required earnings

1 d) low probability of fire = "low risk" ("GOOD RISK") = LOW PREMIUM

high probability of fire = "high risk" ("BAD RISK") = HIGH PREMIUM

All developments listed in question 1 d) tend to DECREASE the probability of fire or reduce the amount of damage and, consequently, the expected claims. This could eventually lead to a downward revision of premium rates. However, it should be noted that insurance companies cannot, for technical reasons, differentiate their premium rates to the extent that they reflect minor improvements. Currently the two main criteria for rate calculation are

- 1) type of building (wooden or concrete outside walls)
- 2) whether or not in area covered by fire brigade.

Refer to page 33 of the Pupils' Pamphlet at this stage; have pupils analyse the samples of fire premium rates and comment on the difference.

2 a)

It is suggested presenting the answer to this question in the form of a table as shown below and developing the solution in a number of steps as indicated in the table:

- i) What is the total value of the property insured?
(In order to simplify the figurework it is advisable to express the value in \$ 1,000 and to indicate it at the top of the respective columns). Note that this step combines both variables (number of houses and value) into one total.
- ii) What is the total amount of premium income required?
(4 x \$ 6,000 claims + \$ 6,000 expenses = \$ 30,000).
- iii) What part of the total premium income does each \$ 1,000 of property insured have to contribute?
(Relating \$ 6,700 (000) Value to \$ 30,000).
- iv) What part of the total premium income does a home of \$ (a) 4,000, (b) 6,000, (c) 8,000, (d) 10,000 value have to contribute? As the answer would be the premium for each class of house, fill in the blank column in Worksheet E accordingly.

CHECK:

- v) Find the total amount of premium paid by the owners of each class of house (multiply Premium by number of houses of each class).

vi) Find the total amount of premium income. Comment on the result.

NOTE:

There are a number of ways to calculate the premium for various classes of houses. Some might not give the exact amount of premium income required (\$ 30,000). Do feel free to choose a different approach, as long as the relationship

HIGH VALUE = HIGH DAMAGE/CLAIM = HIGH PREMIUM

LOW VALUE = LOW DAMAGE/CLAIM = LOW PREMIUM

is sufficiently illustrated.

A No. of houses	B class (value in \$ 000)	A x B (total value insured in \$ 000)	C Premium \$ (B x 4.4776)	CHECK: A x C (Total premium for each class)
250	4	1,000	17.91	4,477.50 (5)
250	6	(1) 1,500	26.866 (4)	6,716.50
400	8	3,200	35.821	14,328.40
100	10	1,000	44.776	4,477.60
		↓ 6,700	30,000 (3)	30,000 (2) (6)
$1 = \frac{30,000}{6,700} = 4.4776 *$				

Have pupils compare the premium rates for each of the four classes of houses. Demonstrate that the premium for a \$4,000 house is half of the premium of a \$8,000 house; the premium for a \$10,000 house is the sum of the premiums for a \$4,000 and \$6,000 house.

Conclude that the premium increases in the same proportion as the value of the house (LINEAR RATE).

* Note that the premium rates per \$1,000 are normally rounded; in our case the insurer would perhaps apply \$4.50 per \$1,000 value.

Questions for further discussions:

- 1) Why is it wise for fire policy holders to review the value of their property from time to time?
- 2) Surendra bought a house for \$8,000 recently. Before moving into his new home he wanted to take out an insurance policy covering his property. How should he go about estimating
 - (a) the value of his house; (b) the value of his personal belongings ?
- 3) Should fire insurance of buildings be made compulsory?
- 4) In some countries insurance companies pay part of the expenses of the town fire brigades. Is this fair? What are the advantages/disadvantages of this arrangement?
- 5) Many insurance companies support financially such events as road safety week, fire prevention week, etc. For what reasons?
- 6) Places with higher fire risk (such as hotels, movie theatres, dance halls, night clubs = "PLACES OF PUBLIC ASSEMBLY") are obliged to have special equipment installed in order to prevent or reduce fire damage. Compile a list of these items (such as buckets with water/sand, fire extinguishers, automatic "sprinklers", emergency lights, smoke doors, emergency exits (= "MEANS OF EGRESS")).
- 7) Smoke or poisonous gases created by the fire sometimes cause loss of life. Give examples of materials which are particularly dangerous (plastics, textiles, furnishing fabrics, etc.).

Suggested further activities:

Using newspaper and radio reports, compile a list of most common causes of fire (kerosene stoves, storage of inflammable material, defective electrical appliances, wiring, overloaded plugs, incorrectly "repaired" fuses, cigarettes carelessly thrown away, etc.).

Draw up some basic rules for preventing fire.

Burglary Insurance

Refer to the newspaper cuttings reproduced on page 28 of the Pupils' Pamphlet. Have pupils identify the risk described.

Explain that burglary is a common risk, particularly high for retail businesses (higher value of store goods, premises not occupied during night/weekend, etc.).

Compile a list of items usually found in retail stores (furniture, cash register, food, kerosene, cash, cheques, cigarettes, tools, alcoholic drinks, radios/cameras, textiles, etc.) and discuss grouping them (in perhaps three groups) according to the burglary risk they pose.

Conclude that goods

with high value / low weight

which can be easily sold or used

= goods in HIGH DEMAND

of which origin is difficult to trace

pose a particularly high burglary risk.

Refer to the examples of premium rates of burglary insurance (page 33 of the Pupils' Pamphlet) and have pupils comment on the different classes.

Re-state

HIGH RISK = HIGH PREMIUM

LOW RISK = LOW PREMIUM

Emphasise that this rule applies to ALL types of insurance.

Burglary Insurance (II)

Revise briefly the findings of the last lesson.

Refer to the letter shown on page 30 of the Pupils' Pamphlet. Have pupils analyse the content.

Discuss the following points:

- 1) Should an Insurance Company accept protection of Mr. Sami's business?
- 2) Which points of his letter suggest a high risk? (Rural area, liquor content, high value of stocks).
- 3) Which points suggest a low risk? (No previous burglary, watchman, iron bars, concrete building).
- 4) What advice would Oceanic Insurance give Mr. Sami when comparing the value of his stocks with the amount he wants to insure?
- 5) Does Mr. Sami qualify for a premium discount?
- 6) How much would his yearly premium be?
 $(\$4,000 \text{ sum insured} = \$680 - 34 (5\%) = \$646)$

Refer to the Burglary Insurance Policy reproduced on pages 31/32 of the Pupils' Pamphlet.

Have pupils analyse the conditions of the policy and discuss

- (a) additional protection - other than indemnity for stolen goods - offered by this policy;
- (b) necessity for special protection for cash;
- (c) exclusions.

Have pupils fill in the policy, calculate premium and stamp duty (5 cents per \$100 sum insured) on the basis of Mr. Sami's letter.

Houseowner's and Householder's Insurance

Note: This section is supplementary. It aims at developing skills in analysing a realistic Houseowner's and Householder's policy, including alterations to the insurance contract, and applying conditions and exclusions of the policy to a series of assumed events. Pupils should identify the relevant clause of the contract and apply it to each given case. It is expected that the main difficulty in dealing with this section will be the difficult legal English used in the policy text. The teacher will have to decide whether or not to include this section.

Refer to the Houseowner's and Householder's policy (pages 35/36 of the Pupils' Pamphlet).

Ask questions such as

What kind of document is it?

Which risks are covered?

In what way does this document differ from other policies dealt with previously?

Have pupils extract relevant details of the policy, such as

name of insured, date of policy, date from which protection becomes effective, duration of cover, amount of property insured, amount of premium, type of property, location.

Emphasise that HH's policy is in fact a combination of FIRE and BURGLARY insurance; it also covers other household risks (glass, water). *

Have pupils identify alterations to the policy, such as

- 1) cancellation of one section; (explain that the insured obviously does NOT own the house; the document is a "HOUSEHOLDER'S" policy not covering damage to the building).
- 2) addition of two sections (hurricane + average clause).
Note that these additions must be firmly attached to the policy document and rubber-stamped.

Introduce the term

ENDORSEMENT = additions to the policy conditions; (continued)

* In the past the term Household COMPREHENSIVE or ALL RISK insurance was used for this type of policy. However, the term is misleading since a number of risks are still excluded.

- 3) typed amendments (as at section 2 A (8)). Explain that it is sometimes agreed that the policy holder bears part of the loss/damage himself; in this case the insurance company would deduct a fixed amount from the claim.

Introduce the term

EXCESS = a fixed amount to be deducted from the claim.

Emphasise that alterations of policy conditions as above are quite common in insurance business. They become part of the insurance contract.

Ask pupils to compile a list of new words used in the text of the policy, and to find out and write down their meanings, with the help of the glossary in their pamphlet and their dictionaries.

Houseowner's and Householder's Insurance

Refer to Worksheet G (pages 37/38) in the Pupils' Pamphlet.

Discuss each case separately. Allow time for queries. Have pupils fill in their answers in the table on page 39.

Answers

Case No.	Covered YES/NO	Relevant clause of the policy conditions	Amount of claim	Remarks
1	yes	Sec. 2 A (2)	150	
2	no			not "content" *
3	no			not "content of his residence"
4	partly	Sec. 2 A (2) and B	120	**
5	yes		900	***
6	yes	Sec. 3 B	300	maximum 10 % of sum insured
7	yes	Sec. 2 A (4)	100	
8	yes	Sec. 2 A (6)	50	
9	partly	Sec. 2 A (7)	50	"Larceny"; cash up to \$50 only
10	yes	Sec. 2 A (1)	100	
11	no	last para. under content definition		policy suspended when sublet
12	partly	Sec. 2 A (8) and Amendment	80	****

* covered under Mr. Patel's policy, if any

** brother's loss NOT covered, as not permanently residing with Mr. Ali

*** underinsured - AVERAGE CLAUSE - will receive 75 % of loss only

**** window damage NOT covered, as not part of content; other damage covered, subject to excess of \$40

Claim \$120 - excess \$40 = \$80 to be paid

Life Insurance

Refer back to the diagram on page 4 of the Pupils' Pamphlet.

Re-state the difference between GENERAL Insurance - LIFE Insurance,
for example

	GENERAL INSURANCE	LIFE INSURANCE
RISKS	Theft, burglary, fire, hurricane, etc.	Death of insured
PROBABILITY	could happen	will happen
CONCLUSION	Insurance Company <u>might</u> have to pay claim	Insurance Company <u>will</u> have to pay claim

Tell pupils that ASSURANCE instead of INSURANCE is frequently used in life insurance business.

Refer to the fact sheet (page 40) of the Pupils' Pamphlet and explain the three main types of life insurance, i.e.

WHOLE (of) LIFE	}	INSURANCE
TERM		
ENDOWMENT		

Discuss ways in which insurance companies can estimate future claims in life insurance (births and deaths are registered, population statistics give information on the ages of persons dying).

Refer to the MORTALITY TABLE on page 41 of the Pupils' Pamphlet and familiarise pupils with its content by asking questions, such as

- 1) How many people out of 1,000 will live to the age of 10, 30, 50 years?

(continued)

- 2) How many will die between the ages of 30 - 40 years;
50 - 60 years?
- 3) How many people out of 1,000 are likely to die before the
age of 10, 60, 80 years? *

Emphasise that the MORTALITY TABLE shows the PROBABILITY of death, i.e. the number of people LIKELY TO DIE; it is not necessarily an exact prediction.

Conclude that the AGE of the insured person is a very important factor in life insurance.

* The table reproduced in the Pupils' Pamphlet is simplified. A detailed mortality table is shown on the following page. Strictly speaking, mortality depends on a number of factors, such as health standards, climate, race, etc. and is different from country to country. For technical reasons, life insurance firms use AVERAGE figures, compiled in STANDARD MORTALITY tables, used almost worldwide.

STANDARD ORDINARY MORTALITY TABLE

Age	Number Living	Number Dying	Age	Number Living	Number Dying	Age	Number Living	Number Dying
0	1,023,102	23,102	33	914,282	3,767	67	531,133	24,730
1	1,000,000	5,770	34	910,515	3,961	68	506,403	25,553
2	994,230	4,116	35	906,554	4,161	69	480,850	26,302
3	990,114	3,347	36	902,393	4,386	70	454,548	26,955
4	986,767	2,950	37	898,007	4,625	71	427,593	27,481
5	982,817	2,715	38	893,382	4,878	72	400,112	27,872
6	981,102	2,561	39	888,504	5,162	73	372,240	28,104
7	978,541	2,417	40	883,342	5,459	74	344,136	28,154
8	976,124	2,255	41	877,883	5,785	75	315,982	28,009
9	973,869	2,065	42	872,098	6,131	76	287,973	27,651
10	971,804	1,914	43	865,967	6,503	77	260,322	27,071
11	969,890	1,852	44	859,464	6,910	78	233,251	26,262
12	968,038	1,859	45	852,554	7,340	79	206,989	25,224
13	966,179	1,913	46	845,214	7,801	80	181,765	23,966
14	964,266	1,996	47	837,413	8,299	81	157,799	22,502
15	962,270	2,069	48	829,114	8,822	82	135,297	20,857
16	960,201	2,103	49	820,292	9,392	83	114,440	19,062
17	958,098	2,156	50	810,900	9,990	84	95,378	17,157
18	955,942	2,199	51	800,910	10,628	85	78,221	15,185
19	953,743	2,260	52	790,282	11,301	86	63,036	13,198
20	951,483	2,312	53	778,981	12,020	87	49,838	11,245
21	949,171	2,382	54	766,961	12,770	88	38,593	9,378
22	946,789	2,452	55	754,191	13,560	89	29,215	7,638
23	944,337	2,531	56	740,631	14,390	90	21,577	6,063
24	941,806	2,609	57	726,241	15,251	91	15,514	4,681
25	939,197	2,705	58	710,990	16,147	92	10,833	3,506
26	936,492	2,800	59	694,843	17,072	93	7,327	2,540
27	933,692	2,904	60	677,771	18,022	94	4,787	1,776
28	930,788	3,025	61	659,749	18,988	95	3,011	1,193
29	927,763	3,154	62	640,761	19,979	96	1,818	813
30	924,609	3,292	63	620,782	20,958	97	1,005	551
31	921,317	3,437	64	599,824	21,942	98	454	329
32	917,880	3,598	65	577,882	22,907	99	125	125
			66	554,975	23,842			

Life Insurance (II)

Revise the findings of the last lesson.

Ask pupils to complete Worksheet H (page 42 of the Pupils' Pamphlet).

Note: If little time is available, it is suggested dividing the class into three groups and dealing with the calculation of premium rates for 20, 40 and 60 year old groups simultaneously.

Answers - Worksheet H

1 a) 30; 1 b) 20; 1 c) 223; 1 d) 190.

- 2) Note that TERM INSURANCE covers the life of the insured between a number of years only. In our case people insured at the age of 20 will be covered till the age of 30 (10-year term). This allows us to calculate the premium in the following way:

Question 2

3

	20 year old	40 year old	60 year old
a)	out of 950 people 25 are likely to die out of 1,000 people 26.3 are likely to die	out of 883 people 42 are likely to die out of 1,000 people 47.5 are likely to die	out of 677 people 133 are likely to die out of 1,000 people 196.4 are likely to die
b)	either 26 . \$ 2,000 = \$52,000, or 27 . \$ 2,000 = \$54,000	either 47 . \$ 2,000 = \$94,000 or 48 . \$ 2,000 = \$96,000	either 196 . \$ 2,000 = \$392,000 or 197 . \$ 2,000 = \$394,000
	Insurance companies tend to allow for a "safety margin". They are likely to use the higher claim estimate for their calculation.		
c)	Claim \$54,000 Office Exp. \$ 6,000 Income req. \$60,000 : 10 yrs.	\$96,000 \$ 6,000 \$102,000 : 10 yrs.	\$394,000 \$ 6,000 \$400,000 : 10 yrs.
d)	Premium p.a. $\frac{6,000}{1,000}$ = \$6 per year	$\frac{10,200}{1,000}$ = \$10.20 per year	$\frac{40,000}{1,000}$ = \$40.00 per year

(continued)

4) Comparison of premium rates

Yearly premium for 10-year term life insurance

for 20 year old	\$ 6.00
for 40 year old	\$10.20
for 60 year old	\$40.00

Conclusion: Premium rates increase with the age of the insured.

This type of rate is called a NATURAL PREMIUM.

Life Insurance (III)

Revise NATURAL PREMIUM and re-state that the premium rate increases with the age of the insured.

Discuss

What effect does it have on older people?

Is it fair to charge higher premiums to those who need protection most?

Could pupils think of ways of calculating a natural premium rate more suitable to the needs of the insured?

Ask pupils to read the fact sheet on pages 43/44 of the Pupils' Pamphlet.

Introduce the term LEVEL RATE.

Emphasise the need to keep premium at the same amount for the duration of life insurance.

Re-state the relationship "Bad risk = high premium
good risk = low premium"

and compile a list of professions which are likely to warrant a higher life assurance premium (if the applicant for life insurance constitutes a higher risk due to his health (illness, overweight), occupation (working with explosives, acids), or sport activities (boxer, wrestler), his premium is increased by a certain amount per \$1,000 insured. Note that very sick people cannot be insured).

Ask pupils to complete Worksheet I as homework.

(An example is given on the following page).

EXAMPLES OF PREMIUM RATES FOR LIFE ASSURANCE *

Sum insured \$ 2,000.00	Yearly premium rates **		
	WHOLE LIFE	10-year TERM	20-year ENDOWMENT
age 25 (Policy A)	\$ 26.00	\$ 17.00	\$ 88.00
age 40 (Policy B)	\$ 45.00	\$ 23.00	\$ 90.00

CASH VALUE AFTER 5 YEARS

	WHOLE LIFE	10-year TERM	20-year ENDOWMENT
Policy A	\$ 58.00	NIL	\$ 282.00
Policy B	\$ 116.00	NIL	\$ 274.00

* These rates are examples only. Rates of assurance companies or societies differ depending on the conditions of the policy.

** Premiums paid monthly or weekly are slightly higher due to the higher business expenses (stationery, postage, labour).

20-year ENDOWMENT, payable at the age of 60

Sum insured \$ 2,000.00	Yearly premium at	
	Age 20	Age 30
Offer A	\$ 50.40	\$ 69.80
Offer B	\$ 59.30 *	\$ 74.02 **
Offer C	\$ 46.74	\$ 66.32

* Guaranteed Bonus or profit of \$814 added to sum insured

** Guaranteed Bonus or profit of \$520 added to sum insured.

Life Insurance (IV)

Re-state the difference between NATURAL PREMIUM - LEVEL PREMIUM.

Emphasise that only LEVEL PREMIUMS are in use in life insurance.

Ask pupils to produce Worksheet I; compile the answers on the blackboard. (Note that rates differ between individual insurance companies depending on the conditions of policy and other factors).

Have pupils comment on the differences, comparing benefits and premium rates for each type of life insurance; use fact sheet on page 40 of the Pupils' Pamphlet for reference).

Compile the main points on the blackboard, possibly in the following form

- 1) high sum insured = high premium
low sum insured = low premium
high age of insured = high premium
low age of insured = low premium.

2) TERM INS.	WHOLE LIFE INS.	ENDOWMENT INS.
low premium	medium premium	high premium
remains constant for the fixed term. If renewed, increased premium, since new age is taken as basis, also new medical examination necessary	remains constant for whole life	remains constant for duration of term
amount payable if insured dies during term, NO PAYMENT if he lives	amount payable if insured dies	amount due if (a) insured dies <u>OR</u> (b) reaches age fixed in policy
TEMPORARY LIFE PROTECTION	LIFE PROTECTION	LIFE PROTECTION <u>AND</u> SAVINGS PLAN

Conclude that the premium rates are determined by

- 1) the type of protection required;
- 2) the age of the insured.

Questions for further discussions:

Some people maintain that "a dead person does not need money any more".

Discuss and compile a list of expenses to be paid by the family or to be set aside for the future, such as

- 1) hospital, doctor, medicines;
- 2) cost of funeral, traditional ceremonies;
- 3) paying off old debts;
- 4) supplementing future family income, future school fees, etc.

Life Insurance (V)

Refer to the Life insurance POLICY on pages 46/47 of the Pupils' Pamphlet.

Have pupils extract details of the policy, such as

name of insured, age, type of protection, premium, etc.

(Discuss: the policy has no fixed duration of coverage. Why?)

Explain the new terms

BENEFICIARY
CASH VALUE
REINSTATEMENT
SURRENDER

using the explanatory notes on pages 49/50 of the Pupils' Pamphlet.

Refer to the conditions and provisions of the life insurance policy on page 47 and tell pupils that after 2 or 3 years of premium payments, the amount paid in so far (less certain deductions) can be used in different ways. Illustrate this in form of a diagram, for example

CASH VALUE
(whole life and endowment policies only)
ENTITLES TO

- | | |
|---|--|
| <p>1) obtain a loan from the insurance firm</p> <p>2) stop paying premium but keep up protection for a reduced amount</p> <p>3) use policy for security when borrowing money from elsewhere</p> <p>4) extended term insurance - protection is kept up for a number of years depending on the amount of cash value, out of which premiums are paid</p> | <p>5) surrender policy and obtain cash payment</p> |
|---|--|

PROTECTION KEPT UP

PROTECTION ENDS

Note: The example below illustrates the options listed under the non-Forfeiture provisions of Mr. Waqa's life insurance policy (page 46 of the Pupils' Pamphlet).

(Type of policy: \$ 2,000 - whole of life, Age 40

Premium: \$ 45.00 per year).

After 10 years (at the age of 50) Mr. Waqa would have paid

$10 \times \$45 = \$450$ in premiums.

He could opt for

- | | | |
|---------------------------------|----|--|
| 1) Surrender | | Cash value \$ 318 paid out,
protection ends; |
| | OR | |
| 2) Paid-up policy * | | Amount of policy reduced to \$ 582,
he remains protected for the rest
of his life without further premium
payments; |
| | OR | |
| 3) Extended term
insurance * | | Amount of policy remains at \$ 2,000,
he remains protected for 9 years and
2 months without further premium
payments. |

It must be emphasised that the figures given are an example only and might differ between insurance firms according to the conditions of policy.

Note that special conditions of policy, such as double indemnity, are cancelled in this case.

Let's look at Statistics

Note: This section is supplementary. It seeks to provide pupils with some data on insurance business in Fiji, (which have been collected by the Bureau of Statistics since 1969), and further develop their skills in analysing and interpreting topical statistical information.

No specific suggestions for lesson development are given. Teachers are asked to decide for themselves which of the activities listed below would be useful for their classes in connection with the topics they have dealt with previously.

TABLES I/II GENERAL INSURANCE

- 1) Analysis of tables. Identifying the three/five most important classes of general insurance in terms of premium income/claims paid; comparison of growth of premium income in (a) fire, (b) motor vehicle, (c) total general insurance, between 1969 and 1973, finding percentage growth rates. Discussion of possible reasons for differences of growth rates.

Example

	\$ 000			
	1969	1973	% increase	Reasons ?
Fire	963	1592	65.3 %	
M. Vehicle	579	1505	159.9 %	
Total Gen. Ins.	2266	4952	118.5 %	

- 2) Comparison of premium income and claims paid of selected classes, discussion of findings:

Example

	1973		
	gross premium income	claims paid	claims in % of premium income
Fire	1592	444	27.9 %
Third Party Ins.	250	235	94.0 %
Burglary Ins.	95	102	107.4 %

Comparison of increases of total premium income/total claims between 1969 and 1973. Comment on findings.

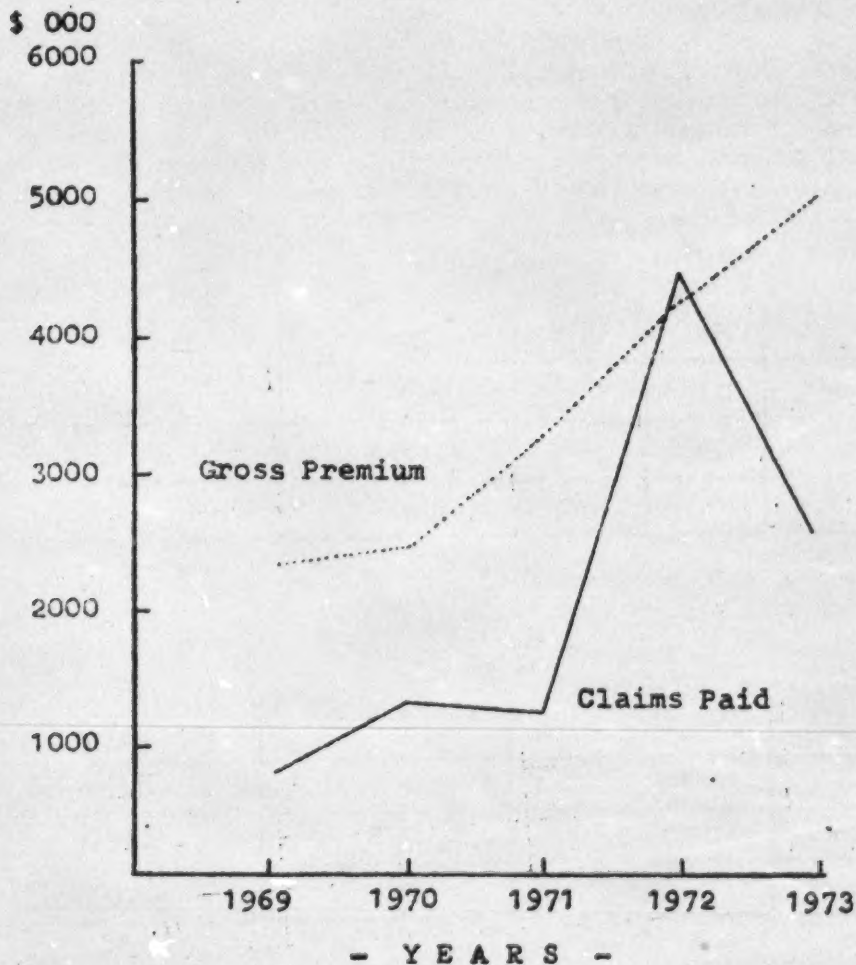
Example

	1969	1973	% increase
Total premium income	2266	4952	118.5 %
Total claims paid	726	2470	240.2 %

- 3) Graphical presentation of total premium income and total claims paid or fire premium income/fire claims paid between 1969 and 1973. An example in form of a line diagram is shown below. Note the "Hurricane Bebe Peak".

GENERAL INSURANCE

TOTAL GROSS PREMIUM INCOME AND TOTAL CLAIMS PAID



FIRE INSURANCE (INCLUDING HURRICANE, EARTHQUAKE ETC.)

41

GROSS PREMIUM INCOME AND CLAIMS PAID

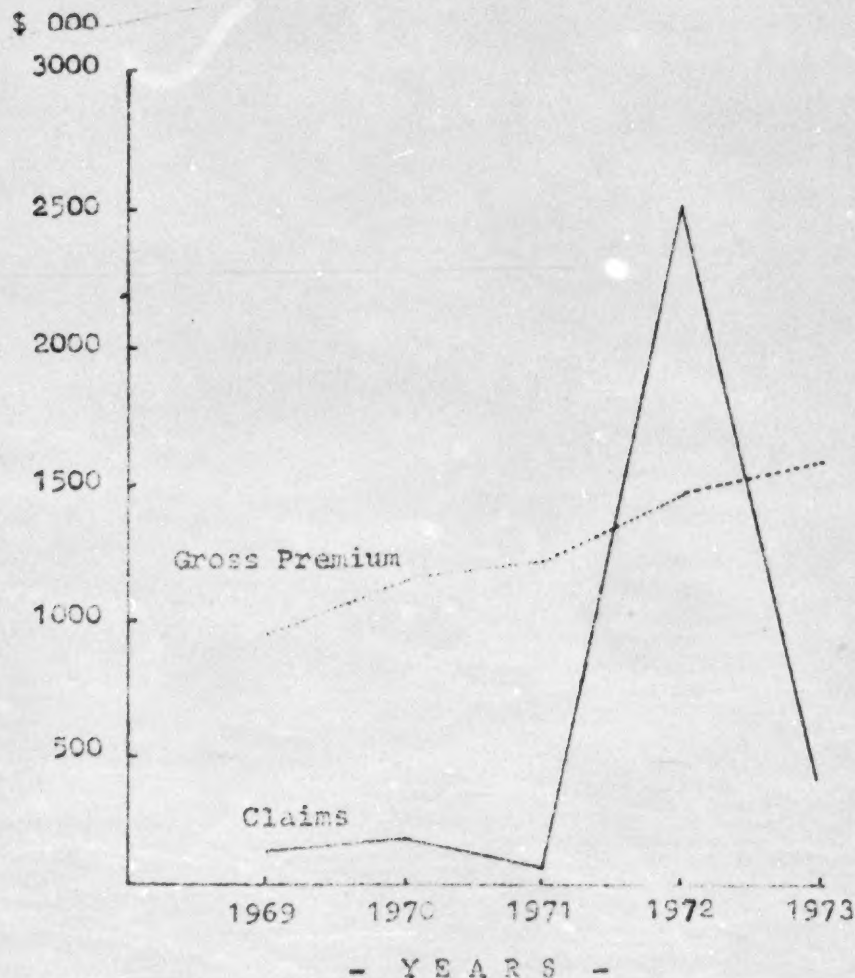


TABLE III LIFE INSURANCE

Total and percentage increase of life insurance policies sold in 1970 and 1973. Percentage of policies lapsed during each year. Conclusion from findings.

Example	1970	1973	% change
Policies in force at the beginning of the year	39,879	49,776	+ 24.8 %
Lapsed during the year	5,909	5,734	- 3.0 %
% of policies lapsed	14.8 %	11.5 %	

APPENDIXFUNDAMENTAL PRINCIPLES OF INSURANCE

The principal object of insurance is to provide a pool to which the many contribute and out of which the few who suffer losses are compensated. The financial losses of the individual are equitably distributed over the many.

An Insurance Policy is a contract between the Insured and the Insurer. The insured makes an offer - set out and amplified in the Proposal. The Insurer makes an acceptance - later set out and amplified in the Policy. The consideration is the Premium paid by the Insured to the Insurer. The liability under the contract is indemnity for the loss up to the sum insured.

Insurance policies, as a general rule, are contracts of Indemnity. They afford compensation for, or security against, loss, damage, or liability. Where the subject matter is in the form of property, such indemnity is usually calculated on the basis of the value of the property at the time and place of the loss.

The subject matter of insurance must actually exist, usually in the form of property but sometimes in the form of a person.

There must be an element of risk, i.e. something in the nature of a misfortune, accident or casualty which brings about the loss and which normally should not have occurred. (Fire, explosion, burglary, collision and so on).

UTMOST GOOD FAITH

The ordinary rule applicable to commercial contracts is caveat emptor (let the buyer beware), but insurance contracts are different, for they are contracts uberrimae fidei (of the utmost good faith). This is the only practicable basis for insurance because the full facts are known to one party alone, the proposer, and the principle of utmost good faith requires that he shall make a full disclosure to the other party, the insurer. The duty, however, is reciprocal, so that the insurer must likewise observe utmost good faith in his dealings with the proposer.

INSURABLE INTEREST

The insured must have a legal right to insure, (e.g. owner, mortgagor or trustee) otherwise he is wagering on the even covered happening, and the contract will be of no legal effect.

(ii)

With property, the insured, to have an insurable interest, must benefit by its safety or be prejudiced by its loss or by damage to it. Where the policy covers his liability he must benefit by the absence of liability, or be adversely affected by the creation of liability. Insurable interest must have a pecuniary value.

INDEMNITY

The object of indemnity is to place the insured in the same position after a loss as he enjoyed immediately before the loss, subject to the terms and limitations of the contract. This principle applies to most types of fire and accident insurance, except most personal accident insurances effected on the life of the insured person.

It would obviously be wrong to allow an insured person to make a profit from a loss, for it might tempt him to desire the insured event, which is clearly against public policy and detrimental to the interests of the other policy holders.

SUBROGATION

Subrogation is the right of an insurer, after payment of a loss, to every right of the insured for recovery against a third party to recoup or diminish his loss. This right arising previously or at some future time, includes all rights in contract or in tort. The right of subrogation is implied in all contracts of indemnity.

PROXIMATE CAUSE

Before an insured can recover from his insurers for a loss that he has sustained, it is necessary to determine the cause of the loss. The insured can recover only if the loss or damage is directly or proximately caused by an insured peril. It is not sufficient that the loss or damage is caused remotely by some factor in a chain of events which were originally commenced by an insured peril. For example, fire damage is a claim under a Fire policy but damage to a neighbouring fence by a bolting horse frightened by the fire would not be a claim as the cause of the loss would be the "remote" cause and not the "proximate" cause.

SOME FURTHER NOTES

PROPOSAL

The proposal form which is the basis of the contract, contains a set of printed questions designed to obtain full information of the property to be insured and of any previous losses and insurance experience of the proposer. This information enables the insurance company to assess the risk involved, and calculate an appropriate premium to be charged.

COVER NOTE

Cover notes are issued as a temporary or provisional protection to the proposer pending acceptance of the proposal and the issue of the policy by the Insurer.

INTERIM CERTIFICATE

An interim form of contract issued by some companies pending the drafting and issue of the policy itself.

POLICY

The contract form which is issued by the insurance company to the insured. It sets out details of the insurance, property insured, the amount of insurance and the premium, the period during which the policy is in force and other conditions of the contract.

ENDORSEMENTS

Any alterations, as, for example, an increase or reduction in the sum insured, removal of the property to a different location or transfer to a new owner, must be noted in the policy. This is done by an amendment typed on or attached to the policy setting out the details of the alteration.

RENEWAL NOTICE

It is not legally binding on the insurance company to notify the policy holders as their respective policies fall due or expire, but it is the usual practice to do so. A form known as a renewal notice is sent out some time before the policy expires inviting renewal of the contract.

RENEWAL CERTIFICATE

A form issued to indicate that the policy has been renewed for a further period.

CLAIM FORM

When an event occurs which might give rise to a claim under the policy, it is essential for the insured to notify his company immediately.

A printed claim form is then filled in by the insured, giving details of the estimated loss and relevant information in connection therewith.

(iv)

AVERAGE CLAUSE

Where an insurance is declared to be subject to average, the following clause shall apply:-

If the property hereby insured shall, at the breaking out of any fire, or at the commencement of any destruction of or damage to such property by any other peril hereby insured against, be collectively of greater value than the sum insured thereon, then the insured shall be considered as being his own insurer for the difference, and shall bear a rateable proportion of the loss accordingly. Every item, if more than one, of the policy shall be separately subject to this condition.

Some insurance rates are calculated on the understanding that the sum insured will represent the full value of property at the insurer's risk. In order that the insurer's interests are, therefore, protected such policies are made subject to average, which simply means that if the policy holder is under-insured, he must then bear a rateable proportion of any losses which arise.

AVERAGE

Example	Fire damage	\$ 400
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Value of the insured property at the time of the fire ..	\$1,000
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Amount of insurance	\$ 750
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Therefore the insured is his own insurer for \$250.

The insurance claim settlement would be made as follows:-

Insurance Company bears	$\frac{750}{1000}$
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or 75 % of the loss	\$ 300
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The Insured himself bears	$\frac{250}{1000}$
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or 25 % of the loss	\$ 100
---------------------------	--------

\$ 400

ASSIGNMENTS OF POLICIES

All insurance policies are personal contracts between the insurance company and the named insured. It is the insured's interest in the subject matter which is protected by the Insurance company and no party other than the named insured can recover under the contract.

In the event of the property insured under the policy having been sold or otherwise disposed of (excepting by will or operation of law) the interest of the new owner is not automatically protected by the old owner's policy. The insurer must receive a Notice of Assignment from the existing policy holder and approve of the transfer to the new party.

In the event of a transfer of interest by will or operation of law, the interest of the new party is automatically held covered until such time as the policy is reviewed or expires.

It is not usual practice to accept assignments of certain types of accident policies, i.e. motor vehicle policies and public liability policies.

EXCESS

Some types of policies provide for an excess. This means that the insured shall bear a fixed proportion of amount of every claim. This is to eliminate trivial claims and also make the insured take adequate precautions.

Excess -

Policy contains \$50 Excess
Claim is for \$52
Insurer pays \$2
Insured pays \$50

Franchise -

Policy contains \$50 Franchise
Claim is for \$52
Insurer pays \$52 as the amount of claim exceeds the franchise.

As in motor vehicle damage claims, the excess applicable is always deducted from the amount of the claim paid by the Insurers for repairs.

Where franchises are applied in other classes of insurance (e.g. marine) the full amount of the claim is paid provided this amount exceeds the franchise.

MARINE INSURANCE (Including Land and Air Transport)

Marine insurance policies are not necessarily confined to the insuring of ships and cargoes, but may be used also to insure goods sent by other modes of transport, i.e. road, rail and air.

(vi)

PRINCIPLES OF MARINE INSURANCE

1. Indemnity - defines the measure of indemnity as the sum which the assured can recover in respect of a loss on a policy by which he is insured, in the case of an unvalued policy to the full extent of the insurable value or in the case of a valued policy to the full extent of the value fixed by the policy.

In practice, most marine policies are valued policies and in the absence of fraud the full insured value is paid in respect of total loss. It is incumbent upon Underwriters to ensure that the value agreed is fair and reasonable and represents the true market value of the interest insured and it is the basis upon which claims are paid even though the agreed value may be more than the actual value at the time of the loss.

For example, it is permissible to insure cargo for its C.I.F. value plus, say, 10 %.

2. Insurable Interest - Who may insure?

The perfect qualification is ownership.

There are others but the insured must stand in such relation to the venture that he would benefit by its safe arrival or be prejudiced by its loss or damage.

3. Good Faith - All material facts must be disclosed by both parties to the contract.

For instance, circumstances which would influence a prudent underwriter in fixing the premium or in deciding whether to accept the insurance, have to be revealed. Failure on the part of the insured to disclose a material fact will enable an underwriter to avoid the contract.

4. Warranties - There are two warranties in every contract of marine insurance that are not expressed in writing but implied -

(a) Seaworthiness. (However, as regards to seaworthiness of a vessel, this is admitted between the insured and his underwriter).

(b) Legality. The venture insured must be lawful and carried out in a lawful manner.

THE POLICY

A contract of marine insurance is evidenced by the policy which may be assigned merely by the insured named therein endorsing his name on the back of the policy. Such assignment is not permitted with Hull Insurance policies, but if a dated notice signed by the insured is provided and Underwriters agree the assignment is permissible.

The modern Marine Insurance contract is built up to what is required by the parties to the contract by taking a long established standard printed basic form of policy and then adding to it clauses of modern construction which together express the required protection. These Clauses are usually framed by the Institute of London Underwriters and by having these Institute Clauses, the desired uniformity is attained.

POLICY CONDITIONS

Generally speaking, policies are issued under one of the following conditions:-

- (a) Free of Particular Average (F.P.A.). This type of policy, bearing as it does a low premium, is used for goods that are unlikely to suffer partial damage. Unless the vessel is stranded, sunk or burnt, etc. partial losses are not recoverable under the policy. Bulk cargoes are often insured on F.P.A. conditions.
- (b) With Particular Average (W.P.A.) or as more usually called With Average (W.A.). This policy insures against partial losses caused by a peril of the seas.
- (c) W.A. and enumerated risks, i.e. W.A. theft, pilferage and non-delivery, freshwater, hooks, oil, grease, mud, acid, stains, damage through contact with other cargo, breakage and leakage.
- (d) All Risks - in modern practice most business men seek "All Risks" covers which, of course, attract higher premiums than W.A. or F.P.A. covers.

The "All Risks" policy covers all risks of loss of or damage to the subject matter insured but excludes loss, damage or expense proximately caused by delay or inherent vice or the nature of the subject matter insured.

Fundamentally, All Risks clauses cover all losses from external and fortuitous causes. The clauses would not cover ordinary wear and tear, wilful conduct of the insured, delay or inherent vice.

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PERIOD OF COVER

First and foremost the insured must have an insurable interest in the interest insured and cover is granted whilst in transit. The risk terminates on delivery of the goods at the destination named in the policy, and pre-supposes that there is no interruption in transit in order to store, allocate, distribute, or other delays within control of the insured. Delays such as the above may be covered on payment of additional premium for the extra risk incurred.

WAR AND STRIKES

It is usual to cover on all sea voyages the additional risks of war and strikes.

HULL INSURANCE

Terms of coverage vary with the class of vessel, the experience of owner and/or master and the cruising limits. Another important factor is the nature of cover desired by the insured.

There is a growing market for this type of insurance business as the popularity of boating as a sport and hobby grows. Our fishing industry too is expanding so more and more vessels require cover.

Terms of cover usually include damage to the hull (subject to an excess), protection for collision liabilities and other special extensions according to class of vessel.

AIRCRAFT INSURANCE

Some companies undertake insurances on actual aircraft including helicopters, private passenger planes and top-dressing craft. The market is expanding with the growth of the aircraft industry in this country.

Amounts of cover can be very high as policies cover damage to the actual aircraft, third party liabilities and passenger risks as required by the insured. Heavy reinsurance is usually arranged.

AVERAGE

The meaning of the word "average" as applied to marine insurance is depreciation or deterioration and is derived from a Latin word "averagium", meaning loss.

There are two kinds of average -

"General" and "Particular".

GENERAL AVERAGE

General Average is one of the oldest laws in existence. It was practised by the Phoenicians in BC 1400.

"There is a General Average Act when and only when, any extraordinary sacrifice or expenditure is intentionally and reasonably made or incurred for the common safety for the purpose of preserving from perils the property involved in a common marine adventure."

(York Antwerp Rules)

Examples of Sacrifice

- (a) Damage caused to a vessel or the cargo on board by water used to extinguish a fire.
- (b) Damage caused to machinery and boilers of a vessel which is ashore and in a position of peril, in endeavouring to refloat the vessel.

Examples of Expenditure

When the common safety of the vessel and cargo is endangered by heavy weather or casualty.

- (a) Expense of tugs.
- (b) Expense incurred in discharging cargo to lighten the vessel.

The marine policy also indemnifies the assured for his contribution in General Average, as well as for any General Average loss or damage, but only if due to a peril covered by the policy.

Particular Average

A Particular Average loss is a partial loss by a peril insured against and which is not a general average loss.

GENERAL

The basic form of marine policy is very similar to that used in England in the 17th Century. The advantages of retaining this ancient form outweigh the disadvantages since most of its provisions have been "Passed and Analysed" by the Courts until the legal effect has been well established.

(x)

Existing decisions and customary practice in marine insurance were codified by the passing in 1906 of the English Marine Insurance Act. New Zealand followed in 1908 by adopting the English Act under the title of the Marine Insurance Act 1908. This made it unnecessary to go back to the old case law where the points had been included in the act.

Rules for the construction of policies are incorporated in the Marine Insurance Act.

FIRE INSURANCE

WHAT IS FIRE?

"Fire" as it applies to Fire Insurance has been defined by the Courts and must consist of the following three elements:-

1. There must be actual ignition.
2. Something must be on fire which should not be on fire.
3. As far as the insured is concerned the fire must be fortuitous.

WHAT A FIRE POLICY INSURES

The uniform Fire policy provides an indemnity in the event of destruction or damage to the property insured by:-

- (1) Fire (whether resulting from explosion or otherwise)
NOT occasioned by or happening through:-
 - (a) Its own spontaneous fermentation or heating or its undergoing any process involving the application of heat.
 - (b) Subterranean Fire, Riot, Civil Commotion, War, Invasion, Act of Foreign Enemy, Hostilities (whether War be declared or not), Civil War, Rebellion, Revolution, Insurrection or Military or Usurped Power.
- (2) Lightning:
- (3) Explosion:-

(a) of Boilers used for domestic purposes only.

(b) in Building not being part of any gas works, or gas used for domestic purposes or used for lighting or heating the building,

such explosion not being occasioned by or happening through any of the perils specified in (1) (b) above.

It will be seen from the above that the policy is not a purely "Fire" policy. Lightning and certain types of Explosion damage are also covered in the basic policy. However, the main purpose of this policy is to provide an indemnity in the event of fire.

RATING FACTORS

- (a) Situation
- (b) Occupation of premises
- (c) Construction
- (d) Proximity to other buildings
- (e) Availability of Fire fighting equipment
e.g. hose reels, hand extinguishers
- (f) Installation of fire protection devices
e.g. sprinklers, automatic fire alarms
- (g) Standard of water supplies and proximity
to fire station.

EXTENSIONS TO THE POLICY

By the payment of additional premium the basic policy can be extended to include a number of eventualities which are not covered or are excluded by the policy. These are:-

1. Damage occasioned by aircraft and/or articles dropped therefrom, including damage by fire or otherwise.
2. The policy excludes damage caused by persons taking part in Riots and Strikes, but this exclusion can be removed, the policy being extended to include damage by fire or otherwise caused by Riots and Strikes.
3. All Explosion damage.

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4. Loss of rent as the result of a building being rendered untenable through fire. The interest of the insured can be either as tenant, where liability to pay rent continues, or as landlord, where payment of rent under the tenancy agreement discontinues.
5. Damage occasioned by Windstorm, whether fire ensues or not.
6. Damage by Earthquake, and/or Subterranean fire, whether fire ensues or not.
7. Cost of demolition and removal of debris.
8. Malicious damage to the insured property.
9. Damage by impact of motor vehicle.
10. Water damage.
11. Damage to electrical appliances, motors or equipment by self ignition.

REINSTATEMENT CONDITIONS

Normally fire insurance is for indemnity only but to meet modern conditions it is possible for a Fire Policy to be amended so that the settlement of any loss thereunder shall be on the basis of the cost of reinstatement or replacement of buildings, plant machinery in a new condition, provided of course, that the amount insured is adequate. Again provided the sum insured is adequate, the policy may be further extended to include extra cost of reinstatement of such property necessarily incurred to comply with the requirements of any Act of Parliament or under the By-Laws and/or Regulations of Municipal or other authority.

FIRE SERVICES

Fire insurance organisations operating in Fiji are obliged to contribute to the cost of fire brigades. Similar legislation is in force in Australia but in no other country in the world are fire insurers expected to assume a proportion of fire service cost. In Fiji, one-third of the brigade costs are met by the fire insurers.

HOUSEOWNERS AND HOUSEHOLDERS INSURANCE

THE POLICY

The Houseowners and Householders Policy is, as its title suggests, designed for the insurance of Private Dwellings and Residential Flats and their contents but may be used also to insure the contents of the residential portion of Business Premises.

This policy, whether issued in respect of buildings or contents, provides an indemnity in respect of the following contingencies:-

- (a) Fire, Explosion, Lightning, Thunderbolt.
- (b) Storm, Tempest or Flood.
- (c) Burglary, Housebreaking, or any attempt thereat.
- (d) Aircraft and articles dropped therefrom.
- (e) Riot or civil commotion.

When issued in respect of buildings it also covers:-

- (a) Accidental breakage of glass, wash basins, lavatory pans, cisterns and sinks.
- (b) Bursting, leaking or overflowing of water tanks, apparatus or pipes.
- (c) Loss of Rent in the event of damage or destruction of the premises by any of the specified perils.

and when issued in respect of contents, it also covers:-

- (a) Water discharged or leaking from pipes or water systems on the premises.
- (b) Accidental breakage of glass forming part of furniture.
- (c) Larceny or theft in certain circumstances excluding cash, bank notes and the like.
- (d) Servants' clothing and personal effects.

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EXTENSIONS

On payment of additional premiums, the policies may also be extended to cover:-

- (a) Damage to any electrical appliance or device (including wiring) caused by electric current artificially generated.
- (b) Certain items of contents under "All Risks" conditions.
- (c) The insured's personal legal liability up to a specified amount.
- (d) The insured's liability as a tenant.

BUILDINGS

Buildings include all domestic outbuildings, stables, garages, landlord's fixtures and fittings contained therein and walls, gates and fences, (excluding live hedges).

CONTENTS

Contents comprise household goods and personal effects of every description excluding livestock, motor vehicles and accessories, watercraft and accessories, and unless specifically mentioned, deeds, bills of exchange, promissory notes, cheques, securities for money, stamps, documents of any kind manuscripts, medals and coins.

There is a limit on cash, treasury notes or bank notes etc. of \$50 or 5 % of the sum insured (whichever is the less) and, unless specifically mentioned, no one article is insured for more than 5 % of the sum insured on Contents, or \$100, whichever is the greater. The provision does not apply to furniture, furnishings, home appliances, pianos, organs, television and radio sets.

NOT "COMPREHENSIVE"

No comment on Houseowners and Householders Insurance would be complete without sounding a note or two of warning.

Although the word "Comprehensive" is still sometimes used to describe the type of policy, members of the Insurance Council of New Zealand ceased to use it many years ago, so as to avoid any possible misunderstanding.

The policy is not an "All Risks" policy. It covers a wide variety of specified risks as has been shown, but there are certain clearly stated limitations.

Similarly, the "Temporary Removal" cover, being restrictive, is not a substitute for a "Baggage" policy.

Many insurers do issue both "All Risks" and "Baggage" policies in respect of furs, jewellery, cameras and other especially valuable or vulnerable possessions and traveller's baggage, but naturally the rate of premium of such policies is higher.

WORKERS' COMPENSATION INSURANCE

DEFINITION

Worker's Compensation is the monetary benefit conferred by law in respect of the disablement of an employee or for loss of support suffered by his dependants in the event of his death, providing the disablement or death arises out of and in the course of his employment. The employer is required to pay these benefits and it is not necessary that there be negligence on his part. The law further provides that an employer must arrange an insurance cover to fully indemnify him against all such liabilities, and heavy penalties are inflicted on those who do not comply with this law.

PROTECTED PERIOD

A worker is regarded as being in the course of his employment whilst he is still on his employer's premises during lunch hours and the like.

THE COMPENSATION

If a worker suffers injury (which includes any industrial disease) during any period specified, he becomes entitled to compensation at rates set out in the Act. Weekly rates vary according to whether the worker is a minor or adult, single or a married man with dependants. Medical, hospital and similar expenses are paid in full.

The Act includes an extensive schedule of permanent injuries such as loss of finger, sight, etc., for each of which a lump sum compensation is provided, varying with the seriousness of the permanent injuries. A specified lump sum is also provided for the widow and dependants of a worker whose death occurs during the periods prescribed.

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In the event of disagreement between employer and employee the matter is decided by a Compensation Court.

DISQUALIFICATION

Should the injury to a worker be attributable to his serious and wilful misconduct (such as being under the influence of intoxicating liquor) compensation is not payable unless the injury results in death or serious and permanent disablement.

COMMON LAW LIABILITY

The Workers' Compensation cover includes indemnity for the employer for his liability to pay damages for claims at Common Law - such claims are those where it is proved that the employer or his servants have been guilty of negligence which has exposed the worker to risk of injury. In such a case the worker's claim is not restricted to sums provided in the Workers' Compensation Act, but is awarded usually by a jury in a civil court. There is no limit of cover for common law liabilities.

PREMIUM RATES

Premiums charged by insurers for Workers' Compensation policies are based upon tables of trades and occupations, each of which carries a rate calculated from statistics of all insurers which reveal the incidence of claims in each occupation.

MOTOR VEHICLE INSURANCE

Motor vehicle insurance should be considered in two sections.

1. Indemnity against liability for personal injury - compulsory by law.
2. Damage to vehicle and indemnity against third party property liability - noncompulsory.

COMPULSORY THIRD PARTY PERSONAL INJURY INSURANCE UNDER TRANSPORT ACT

Legislation in Fiji requires that the motor vehicle owner shall obtain insurance cover from an approved insurer, covering his liability for personal injury at the same time as he registers the vehicle for use on the highways. This is automatic with registration each year but the owner nominates his chosen Insurer.

It is to be particularly noted that this type of insurance protects the user against his legal liability to pay for personal injury only, and does not extend to include indemnity for damage to property. Legal fees, incurred in settling or defending a claim against the insured, are protected, if authorised by the insurance company. The insurance follows the vehicle and includes protection for the liability of the driver, even though his name may not appear in the registration certificate. The amount of cover provided is unlimited except for fare-paying passengers in buses and taxis where there is a limit.

In New Zealand a compulsory cover for liability to non-farepaying passengers is included but is limited to \$10,000 per passenger, for ordinary cars and trucks but the "comprehensive" policy, to which further reference will be made, has provision to extend this cover further, if desired.

The following rating factors govern the premium:-

- (a) Type of vehicle - (i.e. Private Car, Truck, Taxi)
- (b) Use of vehicle.

INSURED'S OBLIGATIONS

As with all types of policies the Insured is obliged to report all accidents in which the vehicle is concerned forthwith to his insurer after the occurrence. He is obliged to render all reasonable assistance as may be required by the insurer, and all proceedings will be taken in his name and not that of the insurance company. When any notification of claim is received it must be passed on without delay to the insurance company, which is entitled to take any and all steps which it considers are necessary in the settlement or negotiation of the claim. The insured must not in any way, infer or admit to liability, (he, of course, is not entitled to make any promises as to payment).

DAMAGE TO VEHICLE "COMPREHENSIVE" COVER NON-COMPULSORY

There are several different types of policies, not compulsory at law, which are available. The policy normally effected covers physical loss of or damage to the motor vehicle, in addition to other stated and specified liabilities.

Concisely the type of cover normally provided by this policy is:-

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1. Loss of or damage to the motor vehicle and/or its parts and normal accessories whilst thereon. The company has the right to repair, replace, re-instate, or pay in cash for the loss or damage sustained. The liability of the company is limited to the market value of the vehicle. Reasonable salvage charges are also included. Loss of use, depreciation, wear and tear, mechanical or electrical breakdowns, failures and breakages are not covered, nor is damage to tyres caused by application of brakes, or road cuts, punctures or bursts.

NOTE: Commercial vehicles such as vans and trucks have a stated limit of liability in respect of damage but private and business cars are now insured for full market value at the time of the claim without a stated amount.

2. Indemnity against the insured's or driver's liability to third parties for damage to property, excluding property of any relative or friend of the insured who ordinarily resides with him. This should not be confused with the indemnity granted by the Compulsory Third Party cover which is limited to liability for personal injury only.
3. The company will pay all legal expenses incurred with its written consent, or which may be ordered to be paid in defending any action.
4. The policy further provides for reimbursement to the insured for sums which the insured and/or wife and/or husband has paid for medical, dental, hospital or ambulance expenses in connection with bodily injury sustained in direct connection with the insured vehicle. It is a contractual liability, not based on legal responsibility. Certain policies also make provision for cover for death of owner and/or wife within stated age limits.
5. Third party liability cover is provided whilst the insured is using a substitute vehicle.
6. The policy extends to include the liability of the employer or principal of the insured.
7. The company has the option of representing the insured or any other person entitled to indemnity at any inquest or other official enquiry.

EXCLUSIONS

The policy is very wide in its coverage, but obviously all damage cannot be included. Liability is covered only for events arising within Fiji and loss resulting from earthquake, subterranean fire or riots and civil commotion is excluded. Furthermore, if the driver is under the influence of intoxicating liquor or a drug, or is unlicensed, the policy is inoperative. Again, whilst the vehicle is engaged in racing, pace-making, reliability trials, or whilst being tested in preparation for these purposes, all liability under the policy is suspended. The policy is also not operative if the vehicle is being used in an unsafe condition. Unless the appropriate premium has been paid, there is no liability whilst the vehicle is being used for the carriage of fare-paying passengers.

RATING FACTORS

The following factors determine the premium:-

1. Type of vehicle - (i.e. Saloon, Truck).
2. Use of vehicle.
3. Make of vehicle.
4. The age, experience and past driving record of the owner and/or driver.

EXCESSES

Some policies provide that the insured is liable for the first stipulated amount of a claim under the policy. This was introduced in an endeavour to reduce the serious road toll by having the insured share in the risk. The excesses vary in amount according to the type and use of vehicle and experience of driver.

Excesses are sometimes referred to as franchises, but this is incorrect.

INSURED'S OBLIGATIONS

1. It is an implied warranty that the insured vehicle will be maintained in a roadworthy condition at all times, and will not be used in a damaged or unsafe condition.

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2. In the event of an accident he is obliged to take all reasonable steps for the safety of the vehicle, and the insurance company pays for the consequent reasonable salvage charges.
3. It is necessary for the accident to be reported to the company as soon as practicable after its occurrence.
4. Every letter of claim or legal process should be forwarded immediately to the company after its receipt by the insured.
5. All assistance should be rendered by the insured as reasonably requested by the Company.
6. The insured should not authorise repairs to the damaged motor vehicle without the consent of the company, nor should he admit liability to any third party, nor offer or promise any payment.
7. Any change in the use of the vehicle as described in the proposal should be immediately notified to the insurance Company.

INSURER'S OBLIGATIONS

By the acceptance of a proposal, the company undertakes to protect the client in accordance with the coverage granted. For their mutual advantage, the company normally appoints an independent investigator to make complete enquiries into any reported occurrence, or else it takes the same steps through its own experienced claims personnel. It is to be understood that the interests of both the company and the client are identical, the company will do only those things which are designed to assist both parties to the contract, and in particular, to relieve the client from worry or embarrassment. Where necessary, legal assistance is also provided. Complete co-operation from the client will ensure speedy and equitable settlement of all claims.

BURGLARY INSURANCE

Burglary insurance is designed to provide protection against loss or damage to property occasioned by theft consequent upon the forcible and violent entry to premises or by thieves (other than employees) unlawfully concealed thereon.

In certain circumstances cover against theft without the condition of forcible and violent entry may be granted.

REASONABLE PROTECTION NECESSARY

Underwriters require that all business premises which are the subject of Burglary policies shall be securely protected by efficient locking device, the degree of security required being dependent on the attraction of the goods insured, e.g. compare, say jewellery or tobacco and cigarettes with confectionery or the contents of an office.

Discounts may be allowed for certain approved burglar alarms properly installed and maintained.

Where the premises are continually occupied at night, a further worthwhile discount may be allowed.

Cash, notes and negotiable securities such as cheques may also be insured against burglary in safes, strongrooms, business premises and the Insured's private dwelling.

POPULAR MISCONCEPTIONS ON INSURANCE

COMPULSORY THIRD PARTY PERSONAL INJURY INSURANCE UNDER TRANSPORT ACT

It is surprising how many people believe that the Act confers upon a person injured in a motor accident a right to automatically receive a sum of money from an insurance company. In fact the existence of an insurance cover does not alter the Common Law position that an injured person must prove that the negligence of another has caused or contributed to his injury.

HOUSEOWNERS AND HOUSEHOLDERS INSURANCE

The word "comprehensive" was used, some years ago, in describing this type of contract. It conveyed an unfortunate and erroneous impression that the policy covered a loss of any kind and the word is not now used.

The policy, although broad in its scope has clearly defined limitations and is designed to meet the most common needs of the houseowner or occupier.

INFLATED CLAIMS

A common misconception occurs with an insured when he considers that in the negotiation with his company over a loss, he will have to "barter" to obtain an equitable settlement. Thus he reasons, if a

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fair settlement would be \$50, he must commence by asking for \$100, thinking that he will be "beaten down" to the figure of \$50.

This of course, is completely erroneous and far removed from the correct position when considering the method of settling insurance claims.

Policies are generally policies of indemnity, which in practice means that the Insurer undertakes within the limits of the policy, to place the Insured as near as is reasonably possible, in the same financial position after the event insured against, as he was prior to that event.

To arrive at the pecuniary loss, therefore, it is necessary to establish firstly the replacement value of the article destroyed (or stolen as the case may be) and then to make reasonable allowances for the depreciation (if any) of the article under discussion.

For example, an overcoat costing \$30 and which is one week old has been destroyed by fire, the depreciation obviously is negligible and the Insured would therefore receive from his insurance company the amount of \$30.

If, however, the Insured had had the wear of say quarter the life of the insured coat, then he would receive the replacement value of the coat less depreciation of 25 %, i.e. \$7.50. The net pecuniary loss is therefore \$22.50 which amount is paid by his insurance company.

A "first cousin" of the claim based on the "barter idea" as expressed above, is the "inflated claim" submitted by the Insured, whereby he attempts to claim from the insurance company an amount of money far in excess of the monetary value at the time and place of the loss of the article destroyed.

The reason for this "inflated claim" arises from:-

- (a) A perfectly human idea that one's own property is much more valuable than identical property belonging to another person and/or
- (b) A desire by a minority, to attempt to make a profit from the fortuitous happening insured against.

It has, of course, been long established in law that it is against public policy for an Insured to make a profit from the proceeds of his insurance contract following upon the fortuitous happening, and, as the very life and practice of insurance is based upon the presence of the utmost good faith on the part of the Insurer and the Insured, it is essential that the negotiations of claims settlements be entered into in a most amicable and reasonable manner by both parties to the insurance contract, in order that a settlement satisfactory to the client and the insurance company may be the result.

LIFE INSURANCE

There are now over six Life Assurance Offices conducting business in Fiji and the longest operating office will shortly be celebrating its 100th anniversary.

In Great Britain the earliest recorded Life Assurance contract was granted in 1583 and this contract provided for the payment of a sum of money if the life assured died during the 12 months duration of the policy. Evidence of the existence of similar policies granted for short terms has survived, such short term policies being usually subscribed by individual underwriters.

But the need for policies of longer duration became apparent, and in respect of contracts for unlimited duration greater security to policy holders than could be subscribed by individual underwriters was necessary. This greater security was to be found in the form of a mutual society or a joint stock company.

The first of such societies to make any progress received its charter in 1706, operating on the simple principle of collecting contributions from its members and dividing these periodically among the estates of those who had died since the last division.

The year 1762 saw the birth of life assurance in its modern form with the granting of permanent contracts of unlimited duration in forms which have developed to those which find their place in modern society.

WHAT IS LIFE ASSURANCE?

A contract of life assurance is a written undertaking by a life insurer to pay a sum of money upon the death of a person or persons, or it may be any other event dependent on life, such as on a person attaining an agreed-upon age. It will be seen therefore that life assurance differs from all other forms of insurance in that the ultimate benefit to be received under the contract by the person to whom a policy is granted is assured to him so long as the contract is kept in force by the policy holder.

FORMS OF LIFE ASSURANCE

The fundamental types of life assurance are three in number:-

Whole Life Assurance

Under this type of contract the assurer undertakes (provided the policy is kept in force by the policy holder) that they will pay the sum assured on the death of the life assured whenever that should happen.

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Term Assurance

As indicated elsewhere the earliest recorded life assurance contracts were term assurance under which the assurers undertook to pay the sum assured, in return for a premium, of course, if the life assured had died within the term stated in the contract. If on the other hand the life assured survived the stated term, nothing was payable. The same principles apply to term assurance contracts taken out at the present time.

Endowment Assurance

Under an Endowment Assurance the assurers agree, in return for continued payment of the premiums, to pay the sum assured at the end of an agreed term of years or earlier if the life assured shall die.

Most life assurance contracts conform to one or other of these three or are a mixture of them.

Other popular forms of contract which depend upon the duration of human life are:-

1. Children's policies.
2. Superannuation policies.
3. Annuities.

NEED FOR LIFE ASSURANCE

Anyone who contemplates life assurance can best decide for himself the kinds of protection he needs by considering the following headings. He is likely to find that his requirements will fall under one or all of them.

1. Shall I need money to provide a capital sum of an income for my dependants on my death?
2. Shall I need money at some important point in my life perhaps to buy a house or a partnership in a professional practice?
3. Shall I need money to provide an income on retirement from active business life?

Whole Life Assurance is the obvious means of providing the first requirement in that a cash amount is readily available, subject only to the processes of the law, to meet the many financial problems which arise on death. On the other hand there are many special schemes available to help where the maximum cover is wanted, the cheapest being by way of Term Assurance. Term Assurance may be expressed in many ways: for example

in the form of family income benefits when an agreed sum will be paid in instalments year by year providing an income for the widow for the balance of a selected period.

To provide money at an important point in one's life, the best means is an Endowment Assurance maturing at the time when one considers the particular need will arise.

An Endowment Assurance maturing at the date of retirement affords a ready provision of an income on retirement. The assured may either then invest the proceeds himself or use them for the purchase of an annuity on his own life or on the joint lives of himself and his wife.

To cater for persons who are not sure what their own needs and those of potential dependants will be, Life Offices will allow existing contracts to be varied and offer many policies with options exercisable at the end of given periods. For example, a whole of Life contract may be changed to an Endowment Assurance after running for, say, five years at a guaranteed rate of premium whilst a long term Endowment Assurance may be converted into a similar assurance payable at an earlier date.

PREMIUMS

The premium rate for life assurance is calculated by taking into account three basic factors. They are:

1. Mortality Rate
2. Interest earned on Investments
3. Allowance for Expenses

The mortality rate may be described as the number of persons of a group of lives of the same age who may die during a year. This rate is obtained from mortality tables which have been compiled over years of experience and show the rate of mortality at each age. The rate increases of course with age. The office can ascertain the rate of premium required to meet the claims which will probably arise during each year for each group of lives.

It will be apparent that premiums received from young age groups will be held for many years and are invested before claims become payable. The interest earned on these investments is applied to reduce the premium rate ascertained from the mortality tables.

On the other hand, there are several expenses to be met by the Office such as new business procurement costs, cost of maintaining existing business and administration costs and an addition must be made to the premium rate to allow for these.

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From this it will be seen that a Life Office takes several factors into account in arriving at a premium rate which is as low as possible but is also based on sound business principles.

INSURABLE INTEREST

A policy securing a sum at death may only be taken out if an insurable interest exists.

Everyone has an unlimited insurable interest in his or her life, and, if married, in that of his or her spouse. In all other instances, the amount for which a policy may be effected is limited to the financial interest existing at the time the policy is effected; but a life-of-another policy need not be discontinued simply because the financial interest which was present when it was effected has ceased to exist.

Generally speaking, anyone who, on the death of someone else, expects to suffer an unavoidable financial loss, or who will be legally bound to make some payment, has an insurable interest in the life of that other person.

A creditor thus has an insurable interest in the life of his debtor, but not vice-versa.

PROPOSAL

The proposal, as in all classes of insurance, forms the basis of the contract and the statements made on it must be true in all respects and every material fact must be disclosed. The form consists of an application for the particular type of contract and several questions relating to the proposer's name, date of birth and past medical history.

From this information and within certain limits the office may be able to "underwrite" the proposal but a medical examination may be called for having regard to -

- (a) the age of the life to be assured
- (b) the amount of the sum assured
- (c) the past medical history of the life to be assured
- (d) the occupation of the life to be assured
- (e) the type of assurance required

When the office has obtained all the information necessary to 'underwrite' the proposal it may

- (a) Accept the proposal at its usual rate of premium, or
- (b) Charge an extra premium because of the proposers inferior health as his life expectancy may not be as long as an "average" life;
- (c) Accept the proposal for a shorter term, with or without an extra premium;
- (d) Decline the proposal or defer for further consideration after a stated period.

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These notes are extracted from the "Insurance Manual for Commercial Teachers" published by the Insurance Council of New Zealand, Box 474, Wellington.

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